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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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Form 10-Q

(Mark One)*

[X] Quarterly report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended May 31, 1992

[ ] Transition report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period from _____ to _____

PROCESSED BY
10-10-V
JUL 1 1992

Commission file number 0-4235

MOREHOUSE INDUSTRIES, INC.

(Exact name of registrant as specified in it

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California — 95-124[illegible]

(State or other jurisdiction of incorporation or organization) — (I.R.S. Employer Identification No.)

L3Q

1600 West Commonwealth Avenue, Fullerton, California 92633

(Address of principal executive offices) (Zip Code)

(714) 738-5000

(Registrant's telephone number, including area code)

NO CHANGE

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes... No. X..

***Applicable only to issuers involved in bankruptcy proceedings during the preceding five years:**

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court.

Yes... No.... NOT APPLICABLE

***Applicable only to corporate issuers:**

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. 3,890,981 at May 31, 1992

MOREHOUSE INDUSTRIES, INC.

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PART I - FINANCIAL INFORMATION

MOREHOUSE INDUSTRIES, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

	May 31, 1992 (unaudited)	August 31, 1991
A S S E T S		
Current assets:		
Cash	$ 73,000	$ 804,000
Accounts receivable	1,035,000	375,000
Inventories (Note 2)	2,338,000	869,000
Prepaid expenses and other current assets	55,000	20,000
Total current assets	3,501,000	2,068,000
Property, plant and equipment	3,720,000	2,728,000
Less accumulated depreciation	(2,533,000)	(1,662,000)
Net property, plant and equipment	1,187,000	1,066,000
Other assets	302,000	-
	$ 4,990,000	$ 3,134,000
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Notes payable	$ 392,000	$ -
Accounts payable	304,000	207,000
Accrued liabilities	664,000	401,000
Current maturities of long-term debt	205,000	16,000
Total current liabilities	1,565,000	624,000
Long-term debt and deferred credits (Note 3)	612,000	99,000
Total liabilities	2,177,000	723,000
Stockholders' equity:		
Common stock, no par value; 10,000,000 shares authorized, 3,890,981 shares issued and outstanding (Note 4)	3,170,000	3,170,000
Retained earnings (deficit)	(357,000)	(759,000)
Total stockholders' equity	2,813,000	2,411,000
	$ 4,990,000	$ 3,134,000

See accompanying notes

MOREHOUSE INDUSTRIES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(unaudited)

	Three months ended		Nine months ended	
	May 31, 1992	May 31, 1991	May 31, 1992	May 31, 1991
Net sales	$1,959,000	$ 783,000	$5,178,000	$2,674,000
Costs and expenses:				
Cost of sales	1,150,000	447,000	2,994,000	1,706,000
Selling and administrative	543,000	281,000	1,502,000	854,000
Interest expense	31,000	4,000	82,000	6,000
Other expense (income) (Note 5)	24,000	(12,000)	114,000	(36,000)
Total costs and expenses	1,748,000	718,000	4,692,000	2,530,000
Income before provision for taxes based on income	211,000	65,000	486,000	144,000
Provision for taxes based on income (Note 6)	84,000	26,000	194 000	58,000
Income before extraordinary item	$ 127,000	$ 39,000	$ 292,000	$ 86,000
Extraordinary item, tax benefit of net operating loss carryforward (Note 6)	51,000	20,000	110,000	52,000
Net Income	$ 178,000	$ 59,000	$ 402,000	$ 138,000
Net Income per common share before extraordinary item	$ 0.04	$ 0.01	$ 0.07	$ 0.02
Extraordinary item	0.01	-	0.03	0.01
Net Income per Common Share	$ 0.05	$ 0.01	$ 0.10	$ 0.03
Weighted average shares outstanding	3,890,981	3,890,981	3,890,981	3,890,981

See accompanying notes.

MOREHOUSE INDUSTRIES, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)

	Nine months ended	
	May 31, 1992	May 31, 1991
Cash flows provided (used) by operating activities:		
Net income	$ 402,000	$138,000
Adjustments to reconcile net income to net cash provided (used) by operating activities:		
Depreciation and amortization	109,000	86,000
Gain on disposition of assets		
Provision of doubtful accounts	16,000	
Provision for inventory reserves	64,000	
(Increase) decrease in assets		
Certificate of Deposit	-	100,000
Accounts receivable	(676,000)	(92,000)
Inventory	(1,533,000)	(37,000)
Prepaid expenses	(35,000)	11,000
Increase (decrease) in liabilities		
Accounts payable	97,000	(42,000)
Accrued liabilities	261,000	(51,000)
Total adjustments	(1,695,000)	157,000
Net cash provided (used) by operating activities:	(1,293,000)	295,000
Investing activities:		
Capital expenditures		
Property, plant & equipment	(169,000)	(54,000)
Other assets	(307,000)	-
Net cash (used) by investing act.	(476,000)	(54,000)
Financing activities:		
Proceeds from line of credit advances	1,142,000	---
Proceeds from long term contract payable	654,000	31,000
Payment on line of credit	(750,000)	---
Principal payments under capitalized lease	(8,000)	(7,000)
Net cash provided by financing act.	1,038,000	24,000
Net increase (decrease) in cash	(731,000)	265,000
Cash at beginning of period	804,000	439,000
Cash at end of period	$ 73,000	$704,000

See accompanying notes

MOREHOUSE INDUSTRIES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

May 31, 1992

1. Basis of presentation

The accompanying consolidated financial statements, some of which are unaudited, have been condensed in certain respects and should, therefore, be read in conjunction with the financial statements and notes related thereto contained in the Company's annual report to shareholders for the year ended August 31, 1991. In the opinion of the Company, the accompanying unaudited financial statements contain all adjustments (consisting of normally recurring accruals) necessary for a fair presentation for the interim period. The results of operations for the three months and nine months ended May 31, 1992 are not necessarily indicative of the results to be expected for the full year.

2. Inventories

Inventories at May 31, 1992 and August 31, 1991 were as follows:

	May 31, 1992 (unaudited)	Aug. 31, 1991
Materials and parts	$ 770,000	$ 672,000
Work in process	518,000	123,000
Finished goods	1,050,000	74,000
	$2,338,000	$ 869,000

3. Long-term debt and deferred credits

The Company's long-term obligations consist of a bank note at prime plus 2% interest, notes due to the sellers of GST Industries, Inc., at 10% interest, and capitalized equipment leases at from 10.5% to 14% interest. The principal amounts payable are as follow:

Years Ended August 31	Bank Note	Seller Notes	Capitalized Leases
1992	$ 50,000	-	$20,000
1993	200,000	-	20,000
1994	200,000	$200,000	12,000
1995	50,000	-	8,000
1996	-	-	5,000
	$500,000	$200,000	$65,000

4. Stock options

The Company has stock option plans which provide that options for up to 700,000 shares of the Company's common stock may be granted to key employees, directors and consultants of the Company as selected by a committee of the Company's Board of Directors. At May 31, 1992 there were 249,000 options outstanding, of which 120,125 were exercisable. The price at which the options may be exercised varies from $0.375 to $1.125, as determined by the market price of the Company's common stock on the date of grant. During the three months ended May 31, 1992, options on 70,000 shares were granted and 1,250 options became exercisable. No options have been exercised under either the 1984 or the 1991 Plan.

5. Other expense (income)

For the three months and nine months ended May 31, 1991, the "other income" was substantially comprised of interest income on excess cash held by the Company. For the three months and nine months ended May 31, 1992, the "other expense" was substantially comprised of interest expense on debt incurred to facilitate the acquisition of GST Industries, Inc. on November 1, 1991.

6. Provision for taxes based on income

The Company recorded, prior to fiscal 1992, all income tax benefits available to it as a result of net operating losses. At May 31, 1992, the Company had a net operating loss carry forward of approximately $1,800,000 for financial statement purposes and approximately $1,600,000 for federal income tax purposes. The ultimate realization of the benefits of the loss carry forward depends upon future profitable operations. The Company will have a current obligation for California state income tax and Federal Alternative Minimum Tax for which adequate accruals are being made, in the opinion of management.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Liquidity and Capital Resources

During the first nine months of fiscal year 1992, ended May 31, 1992, working capital increased by $492,000, or 34% to $1,936,000. Cash decreased by $731,000, or 91%, while accounts receivable increased by $660,000 or 176%. The cash balance was decreased to facilitate the acquisition of GST Industries, Inc., and to minimize borrowings and reduce interest expense. Inventory increased by $1,469,000 or 169%, to $2,238,000 as the result of the acquisition of GST Industries, Inc. Inventory levels at May 31, 1992 were consistent with levels historically maintained by the Company. The Company had a bank operating line of credit of which $1,238,000 was unutilized at May 31, 1992. In addition to the line of credit, the Company has 10,000,000 authorized shares of common stock of which 3,890,981 were issued at May 31, 1992. While the Company has no plans to issue stock, this could be a source of additional cash in the future.

Results of Operations

Sales for the third fiscal quarter, ended May 31, 1992, were 150% greater than for the comparable prior year period. Sales for the nine months of fiscal year 1992 were $5,178,000, 94% greater than for the comparable prior year period. Backlog was $5,406,000, vs. $720,000 a year earlier. Net profit for the third quarter was $178,000, versus $59,000 in the comparable prior year period. Net profit for the first nine months of fiscal year 1992 was $402,000 versus $138,000 in the comparable prior year period.

Increases in sales, earnings and backlog are primarily attributable to the acquisition of GST Industries, Inc. on November 1, 1991. The continuing operations of Morehouse-COWLES, Inc. alone resulted in a 7% decrease in sales and a 50% increase in profit for the nine months ended May 31, 1992 versus the six months ended May 31, 1991. This increase was due to a favorable mix of sales and increased margins which resulted from improved manufacturing costs. Most of the backlog at May 31, 1992 was not scheduled to ship in the current fiscal year. Neither the backlog nor the operations of the first nine months are necessarily indicative of the result to be expected in the future.

PART II - OTHER INFORMATION

Item 1. Legal proceedings

At May 31, 1992, the Company was a defendant in three (3) product liability lawsuits and three workmen's compensation disability claims.

Two lawsuits, Perales v. Morehouse Industries and Kaulfers v. Morehouse Industries, were more fully described in the most recent 10K and there have been no changes in the status of these suits.

During the second fiscal quarter, on January 27, 1992, Morehouse Industries, Inc. was served with a product liability lawsuit, Miles v. Louis Allis Corp., et al, filed in the Superior Court of New Jersey, Passaic County, which claims injury due to product design negligence. The suit contains insufficient information to determine whether the Company should even be involved. The Company has insurance and the insurer is in the process of gathering additional information to formulate a response.

The Company has received three workmen's compensation disability claims, one for stress and two for bad backs. Management believes all are without merit and is urging its insurance carriers to vigorously investigate and defend against these claims.

Item 2. Change in Securities

None

Item 3. Default upon Senior Securities

None

Item 4. Submission of matters to a vote of security holders

None

Item 5. Other Information

None

Item 6. Exhibits and Reports on Form 8-K

On May 12, 1992, the Company filed Amendment No. 3 to Form 8-K filed November 12, 1991, providing additional information omitted from the original filing.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

MOREHOUSE INDUSTRIES, INC.
(Registrant)

Date: June 23, 1992

James R. Swartwout
Chief Financial Officer